

Testimony of
Governor Edward G. Rendell
Subcommittee on Highways and Transit
House Committee on Transportation and Infrastructure
May 24, 2007

Good Morning Mr. Chairman and members of the Committee. I am happy to be here to talk about the approach we are taking in Pennsylvania to deal with our very real transportation funding crisis.

As you know, earlier this year I proposed that Pennsylvania explore a variety a methods for using the Pennsylvania Turnpike to generate significant transportation funding for our state. A public-private partnership similar to what was done in Chicago and Indiana is one of the options we are considering, but not the only one.

Before I get into the details of this I would like to familiarize you with the dramatic transportation funding shortfall we face in Pennsylvania. Our situation is not so different from that of other states, but due to the age of our infrastructure the repair bill we are facing is dauntingly large.

Pennsylvania has the highest number of deficient bridges in the nation – more than 5,900. A major reason for this is our status as the nation's leader in

another category – the number bridges more than 75 years old. We have not been ignoring this problem – during my tenure as Governor we’ve spent more on bridge repair than ever before, going from \$259 million in 2002 to \$558 million this year. But even at this pace we are just not in position to catch up given the funding we have available.

And our highway investment needs are no less stark. Since I have been Governor we have invested nearly \$8 billion in highway and bridge contracts, yet our system is so large that we still have 8,528 miles of roadway in poor condition. That equates to 21 percent of the nearly 40,000 miles of state-maintained highways controlled by PennDOT.

To get a handle on the true size of this problem in 2005 I created a Commission called the Transportation Funding and Reform Commission. It spent a year studying the problem and issued a final report showing that we would need an additional \$965 million per year to meet our highway funding needs and another \$760 million per year for transit. This totals just over \$1.7 billion per year every year for the next 20 years.

Some states with big funding gaps are in that situation because they have lacked the political will to tax their own citizens at a realistic level. This is not our situation. As things stand today, the taxes Pennsylvania dedicates to roads and bridges are not low. Our aggregate level of gas tax, including both the traditional gasoline excise tax and something we call the Oil Company Franchise Tax, is just

over 30 cents per gallon, much higher than the level of taxation the Federal government has been willing to adopt and among the highest of any state.

In the face of this challenge we have prioritized the repair of existing roads and bridges over the construction of new road capacity – nearly 90 percent of our capital funding repairing these existing assets rather than building new ones – but even this has not been enough to solve our problems.

In short, our state's road and bridge system is huge and it is old and it needs help. We are doing everything that can reasonably be expected to do at the state level both to dedicate state funds to this problem and prioritize the use of these funds. We could certainly use more funding from the federal Government – I'm sure you hear that a lot – but I don't think anyone here expects a major boost in federal funding any time soon.

The bottom line is this: the traditional methods of dealing with our funding shortfall are not up to the task. This is the context in which we are exploring a public-private partnership or some other method of deriving value from the Pennsylvania Turnpike.

As you know, in December, 2006 I issued a call for expressions of interest from firms interested in partnering with us on some sort of Turnpike transaction. In March of this year we signed a contract with Morgan Stanley & Co. to advise on a two-track strategy for doing this.

Under this process, we are doing what Chicago and Indiana did; we are preparing to solicit offers for a long term lease of the Turnpike. The analysis

completed by Morgan Stanley just a few days ago estimates that such a lease could bring the Commonwealth between \$12 and \$18 billion in a one-time payment, or between \$800 million and \$1.6 billion per year in ongoing revenue. In our case a reliable ongoing revenue stream is a better match for the long-term nature of our funding need and would avoid all the temptations that can come with receiving such a large one-time payment.

But as we prepare for this we are also pursuing another track. Together with Morgan Stanley, we are developing a competing option that would turn over control to the Turnpike to a new public corporation that could refinance the roadway in much the same way the private would do, but without any private equity investment. Morgan Stanley estimates that a transaction along these lines could bring in between \$900 million and \$1.4 billion per year.

And finally, our efforts to pursue these two options have prompted the Pennsylvania Turnpike Commission, which currently operates the roadway, to make its own proposal. Under this scenario, a combination of various tolls and fees would raise \$965 million per year.

Based on this information, on Monday of this week we forwarded a draft bill to our Legislature that would authorize PennDOT to solicit bids for a long-term lease, develop one or more public finance alternatives, and select a winner based on which option offers the best combination of revenue for the State's transportation needs and protection of the public interest.

This approach is different from what was done in other places and I would like to explain why we have chosen to proceed in this way.

The most important reason is that it is impossible to know what level of funding can really be provided by any of these methods without actually testing the market. You will recall that a moment ago I said Morgan Stanley's estimate of the revenue available from a long-term lease ranged from \$800 million per year to \$1.6 billion per year. This is a very wide range. It is so wide because for all the sophisticated math that goes into estimating what price the market will offer, it's just an estimate.

It's a little like selling a house: the real estate agent might say your house is worth \$300,000, but the only way to really know is to ask for offers. If you're offered \$400,000 you'll be tempted to sell; at \$200,000 you probably won't be. The question you have to answer at the end of the day is not 'Should sell my house?'; but 'Should I sell my house given what I'm being offered?' It's a matter of both principle *and* practicality.

So in our case, we don't want to decide that a private lease is the right choice when we don't know how much it will bring. Likewise for any public finance option. When we open the final bids, if the best offer from the private sector is \$1 billion per year and we have a public options that gets us \$1.1 billion per year, that's a pretty easy choice. But if the high private bid is \$1.6 billion per year, that choice looks very different.

This approach has other advantages; one is the power of competition. If our legislation is approved and we go out to private bidders, I want them to understand that we have other options; we're not so desperate that we'll accept a bid that fails to meet our expectations because it's the only game in town. And the same goes for the public sector. Those with an interest in seeing the Turnpike managed under a more traditional structure need to understand that their efforts will be measured against the best the private sector can do. The net result is that both groups are highly motivated to help the Commonwealth solve its transportation funding shortfall, and that's good no matter how you look at it.

And so if there is one thought I can leave you with it is this. It is very tempting for each of us to decide where we stand on the question of toll road leases based only on principal. On one side are those that feel the private sector is inherently better suited to this task, and that privatization should be a policy goal in its own right beyond whatever financial benefits it might bring. Others feel that roads are an inherently public function, and that government should not turn them over to private operators regardless of how the economics look.

I embrace neither of these views. I have spent most of my adult life in government, and that has given me a healthy appreciation for the many ways in which government can fall short. As a result I have been open to the provision of public services using the private sector where the benefits of doing so are clear. But the reason I have spent my life in government service is that I believe

wholeheartedly that government can and should be a force for good in people's lives, and that it should never cede its role as the protector of the public interest.

I approach the question of what to do with our Turnpike in this spirit – mindful of the important principles involved, but aware that principle must coexist with practicality.

Thank you, and I would be happy to respond to any questions.